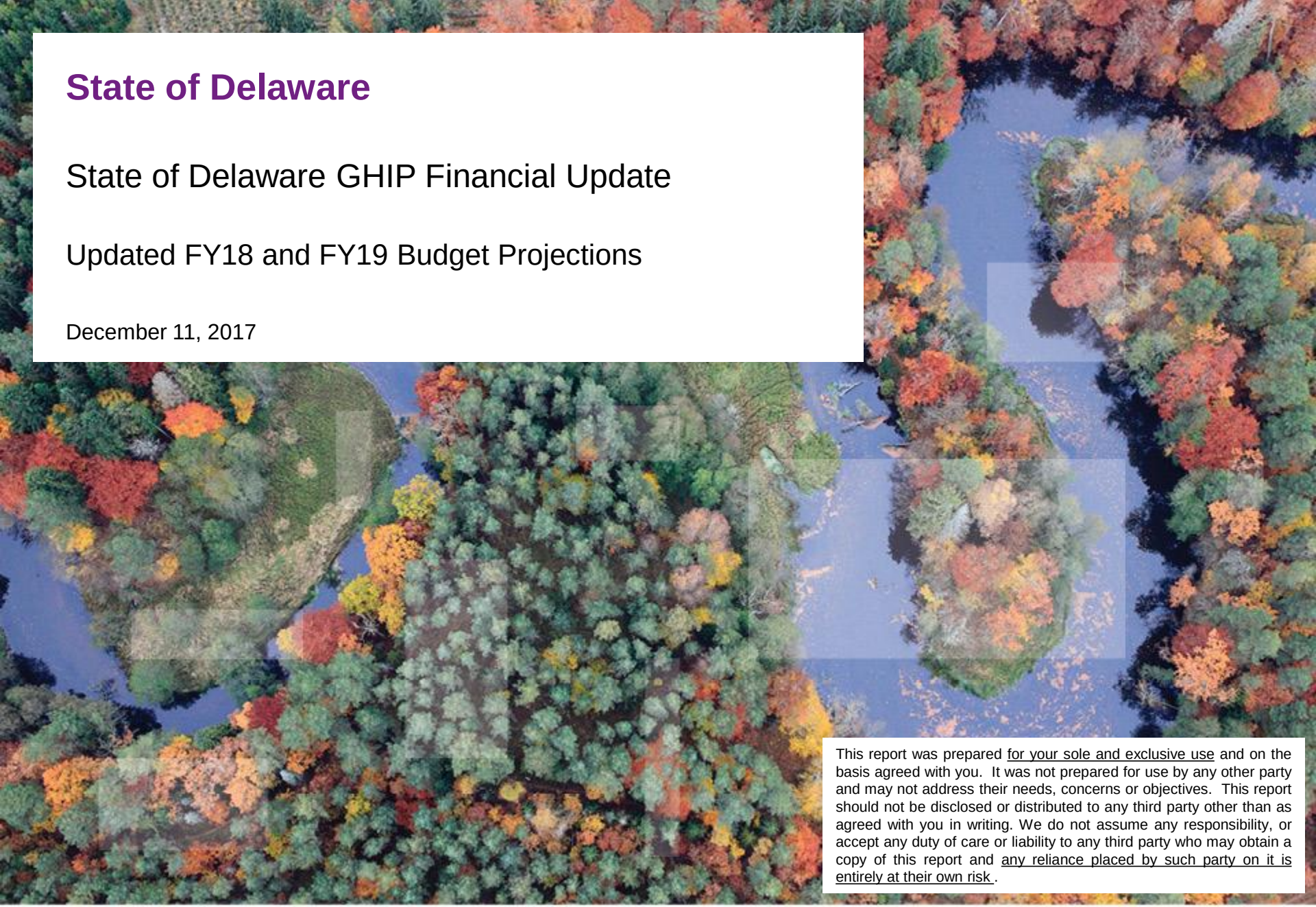
State of Delaware

State of Delaware GHIP Financial Update

Updated FY18 and FY19 Budget Projections

December 11, 2017



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Willis Towers Watson

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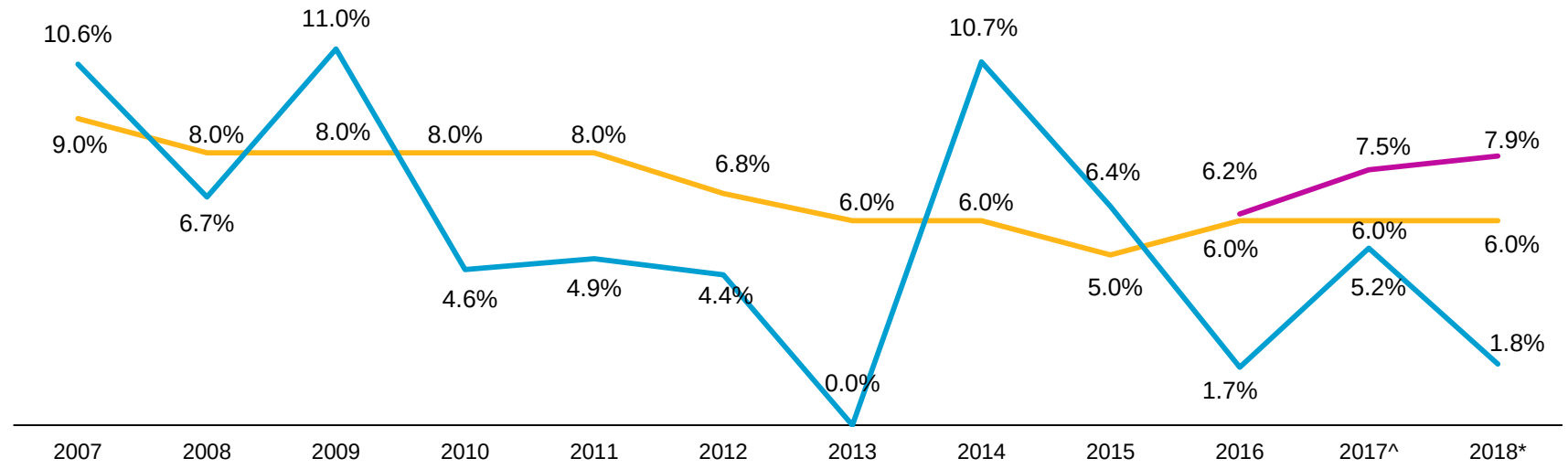
- FY18 projected cost reforecasted
- FY19 projected cost with sensitivity analysis
- FY19 minimum reserve

Historical GHIP cost increases

Actual GHIP increases vs. WTW survey data



^Expected *Projected

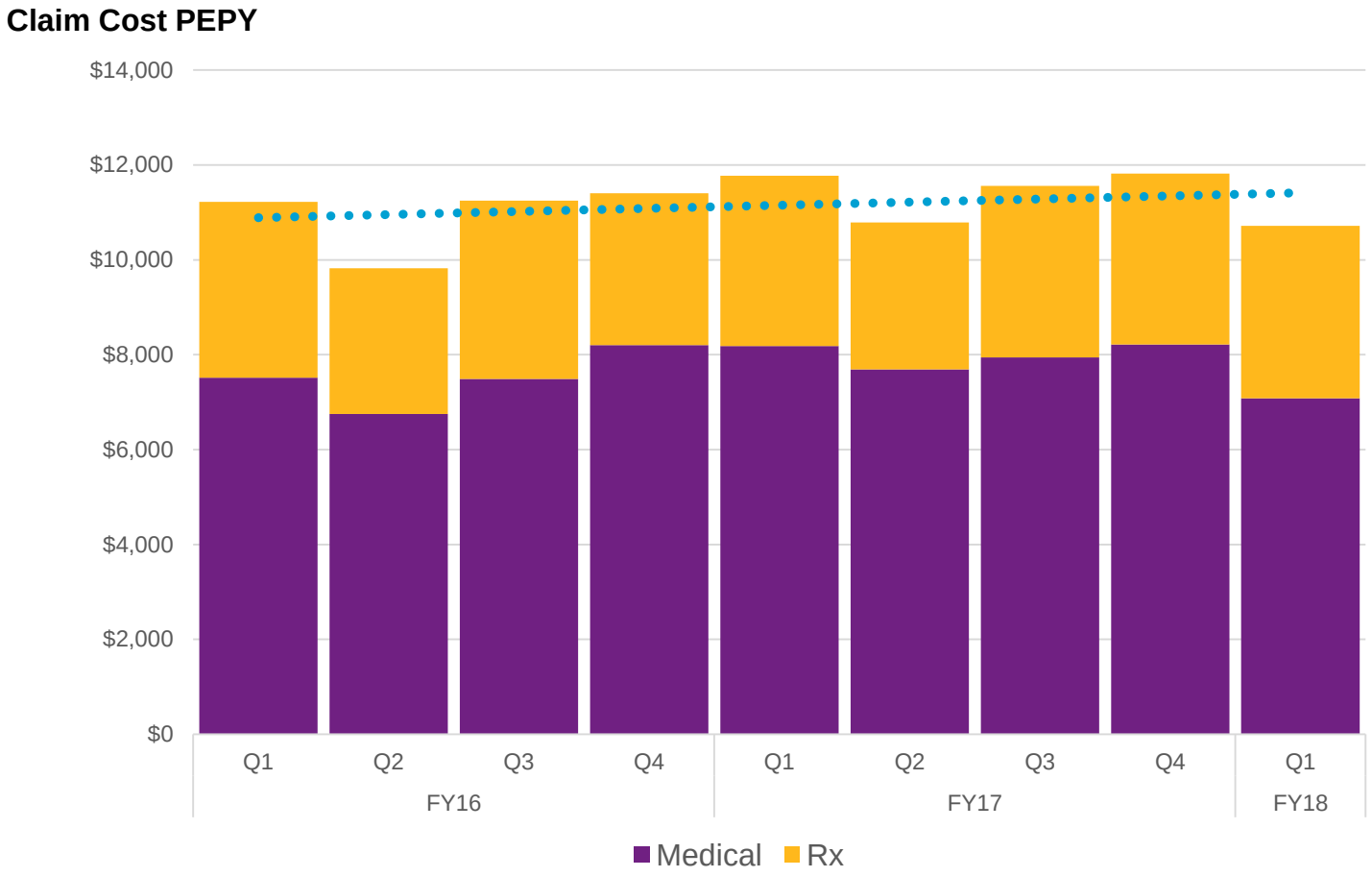
National Health Care Trend (Before Plan Changes)**
Public Sector and Education (Before Plan Changes)**
State of Delaware GHIP Trend***

**National Benchmark Source: Willis Towers Watson Emerging Trends survey. Based on respondents with at least 1,000 employees and median trends for medical and drug claims for active employees including both employer and employee contributions but excludes employee OOP costs. Public Sector and Education reflects responding employers in Public Sector and Education industry.

***2007-2015 GHIP Trend data estimated based on Segal's State_of_Delaware_-_Trend_History_thru_Q2_FY16 030416.pdf. 2016-2018 GHIP trend based on WTW financial reporting for corresponding fiscal year (includes net paid claims and fees).

Historical GHIP claims costs

Medical and pharmacy gross claims per employee per year



GHIP trend line for period shown: 2.4% annual increase (2.7% Medical, 1.8% Rx)

5.3% annual increase excluding FY18 Q1 (7.6% Medical, 0.6% Rx)

*Based on combined active, pre-65 retiree, and post-65 Medicare retiree gross medical and pharmacy claims, provided by Highmark, Aetna, and ESI; does not include offsets from drug rebates and EGWP payments

Health care cost trend overview

Marketplace trend surveys – projected 2018 (Active population)

Source	Medical/Rx		Medical Only	Rx Only
	Gross[1]	Net[2]	Gross[1]	Gross[1]
Willis Towers Watson	6.0%	5.5%		
Aon	7.0%	4.6%		
Mercer	6.0%	4.3%		
PricewaterhouseCoopers	6.5%	5.5%		
Segal			7.7%[3]	10.3%
Wells Fargo			7.7%[3]	12.0%
Aetna			9.5%[4]	
Highmark DE			4.5%[5]	
Express Scripts				11.6%
Average	**6.4%**	**5.0%**	**7.4%**	**11.3%**

- Prevailing marketplace trends of approximately 6-7% for medical and 10-12% for pharmacy (before plan changes) are the foundation of budget rate projection trend assumptions for active/pre-65 retiree populations
- WTW recommends continuing to adjust trend assumption based on GHIP-specific historical trend performance and external environment factors impacting plan costs for 2018

[1]Before plan changes
[2]After plan changes
[3]Trend reflects open access PPO/POS plans
[4]rReflects national book of business trend
[5]Reflects Delaware-specific expected book of business trend; pre-65 retiree trend expected to be 1% higher than active

Health care cost trend overview

Marketplace trend surveys – projected 2018 (Medicare population)

Source	Medical/Rx		Medical Only	Rx Only
	Gross[1]	Net[2]	Gross[1]	Gross[1]
Willis Towers Watson	3.7%	3.7%		
Segal			3.6%[3]	7.5%
Aetna			2.8%[4]	
Highmark DE			3.5%[5]	
Express Scripts				9.7%
Average	**3.7%**	**3.7%**	**3.3%**	**8.6%**

- National medical trend for Medicare-eligible populations running lower than active/pre-65 retiree populations, with costs increasing approximately 3-4% annually
- External survey sources are showing national pharmacy trend in the 8-10% range for Medicare-eligible populations, but with the potential for specialty drugs to have a more significant impact for Medicare retirees in the future, it is recommended to set trend in the 10-12% range similar to active/pre-65 retiree populations

[1]Before plan changes
[2]After plan changes
[3]Trend reflects Medicare Supplement plans
[4]Reflects national book of business trend
[5]Reflects Delaware-specific expected book of business trend

Recommended health care cost trend assumptions

- For active and pre-65 retiree populations, WTW generally recommends setting medical trend in the 6-7% range, and pharmacy trend in the 10-12% range
  - Excluding FY18 Q1, GHIP medical claims have been running close to national trend levels; recommend maintaining trend assumption in the middle of range at 6.5%
  - Recommend maintaining 10% pharmacy trend (low-end of WTW recommended range) due to continued favorable Rx claims experience
- For the post-65 retiree population, recommend maintaining trend assumptions on the "aggressive" end (3% medical, 10% pharmacy) as plan continues to run below budget
- Composite recommended trend of 7.4% falls in between Willis Towers Watson Emerging Trends survey results for public sector/education industry (7.9%) and all responding large employers (6.0%)
- See Appendix for full description of pricing assumptions and methodology

GHIP Trend Assumption	Active	Pre-65 Retiree	Post-65 Retiree
Fiscal Year 2018			
Medical Trend	6.5%	6.5%	3.0%
Rx Trend	10.0%	10.0%	10.0%
Fiscal Year 2019– Recommended			
Medical Trend	6.5%	6.5%	3.0%
Rx Trend	10.0%	10.0%	10.0%

Health care budget projections

FY18 Recast and FY19 Projection

- FY18 recast projected cost of $790.2M represents a 1.1% decrease compared to original FY18 projection of $798.7M, primarily driven by favorable claims experience in Q1 FY18
  - WTW will continue to review emerging FY18 claims experience
- FY19 preliminary projected cost of $843.2M is a 6.7% increase over FY18 recast, and suggests a 4.3% increase in budget rates over current FY18 budget rates (if no surplus used to offset)

Component	Description	Cost ($M)	% Impact	Rate Action over FY18 Budget*
FY18 Projected Cost (Original Approved as of 8/21/2017)		**$798.7**		
Claims Experience	Claims experience updated through FY18 Q1 compared to budgeted costs; also reflects slight shifts in covered population, utilization, and plan design	($8.0)	-1.0%	
EGWP Payments	Represents reduction in expected FY18 EGWP revenue due to favorable Rx claims experience and actual EGWP payments received through September 2017	$1.8	0.2%	
Change in Headcount	Represents decrease in expected FY18 claims due to change in enrollment levels (decrease in Active/Pre-65 enrollment partially offset by increase in Medicfill enrollment)	($2.3)	-0.3%	
FY18 Projected Cost (Recast)		**$790.2**	**-1.1%**	
Health Care Trend (Medical/Rx)	6.5%/10% Active and Pre-65 Retirees 3%/10% Medicare Retirees	$58.9	7.4%	
Rx offsets	Represents increase in expected FY19 EGWP payments and pharmacy rebates	($5.9)	-0.8%	
FY19 Projected Cost (Preliminary Recommendation)		**$843.2**	**6.7%**	**4.3%**

*FY18 aggregate budget of $808.4m based on FY18 rates (excluding 5% risk fee surcharge for participating non-State groups) and September 2017 contracts

Health care budget projections

FY18 Recast and FY19 Projection – sensitivity analysis

- FY19 and FY18 projected costs are shown below under a range of reasonable assumptions, including varying weighting for the two experience periods and a range of health care trend factors
- The SEBC can choose to be more or less conservative in setting the FY19 GHIP budget by selecting an alternative set of assumptions

Key Assumption – Experience Period	Aggressive	Prelim. Recommendation	Conservative
Experience Period	10/1/16 – 9/30/17	10/1/15 – 9/30/17	10/1/15 – 9/30/17
Experience Weighting (Prior Period / Current Period)	0% / 100% (most recent year only)	35% / 65% (2 years, emphasizes recent)	50% / 50% (2 years, even split)
FY18 Aggregate Costs (Recast)	**$782.1M**	**$790.2M**	**$793.4M**
FY19 Aggregate Costs (Projected)	**$834.8M**	**$843.2M**	**$846.6M**
FY19 Overall % Change (vs FY18 Budget)	**3.3%**	**4.3%**	**4.7%**
FY19 Overall $ Change (vs FY18 Budget)	**$26.4M**	**$34.8M**	**$38.2M**

Key Assumption – Trend	Aggressive	Prelim. Recommendation	Conservative
Medical Trend – Active/Pre65	6%	6.5%	7%
Medical Trend – Medicare	3%	3%	3%
Pharmacy Trend	10%	10%	12%
FY18 Aggregate Costs (Recast)	**$787.5M**	**$790.2M**	**$798.4M**
FY19 Aggregate Costs (Projected)	**$837.8M**	**$843.2M**	**$859.7M**
FY19 Overall % Change (vs FY18 Budget)	**3.6%**	**4.3%**	**6.3%**
FY19 Overall $ Change (vs FY18 Budget)	**$29.4M**	**$34.8M**	**$51.3M**

Note: FY18 aggregate budget of $808.4m based on FY18 rates (excluding 5% risk fee surcharge for participating non-State groups) and September 2017 contracts

Health care trend variability analysis

FY19 Minimum Reserve

FY19 Cost Estimate		
Variability Description	**Lower Bound**	**Upper Bound**
Expected Value (without margin)	$843,170,000	
70% Confidence Interval	$830,865,000	$855,476,000
90% Confidence Interval	$823,641,000	$862,699,000
95% Confidence Interval	$819,900,000	$866,441,000
97% Confidence Interval	$817,405,000	$868,935,000

At the 97% confidence interval level, the upper bound is $25.8M higher than the projected budget

- Health care trend variability analysis provides statistical confidence intervals to better quantify volatility and address risk tolerance concerns
  - Confidence intervals represent the probability that the budget estimate will fall between an upper and lower bound of a health care claims distribution
- During March 6, 2017 meeting, SEBC approved a motion to set minimum reserve based on upper bound of 97% confidence interval with intent to refresh amount annually

The above analysis is based on GHIP data available through FY18 Q1, current enrollment as of September 2017, decisions approved to date by the SEBC, and other pricing assumptions as outlined in this document. The estimated confidence intervals shown are directional and intended to reflect the potential random fluctuation in claim cost given the current size and risk profile of the GHIP. The model does not contemplate potential change in cost due to shifts in enrollment, demographics or morbidity of the population, unexpected changes in provider networks, or significant changes in regulations affecting the health care market.

Source: Willis Towers Watson Trend Variability tool including proprietary Health Care Claims Continuance table based on 2017 data

Appendix

Budget Development Methodology

Health care budget development

Overview of budget development process

step 1

Data Collection

- Groups: Active employees and pre-65 retirees (Aetna/Highmark/ESI) and post-65 Medicare retirees (Highmark/ESI)
- Headcount: Employees and dependents enrolled within the recent 24 months of experience
- Utilizing this data from vendor experience reports (claims, enrollment, rebates) and OMB's monthly health fund report (expenses), self-insured medical/Rx budget rates and employee contributions are developed

step 2

Assumption & Pricing Analysis

- Claims experience is adjusted to reflect:
  - Plan design/vendor/network changes
  - Legislative changes
- IBNR factors complete the claims experience, estimating the value of claims *incurred but not reported*
- Health care inflation factors, determined annually from marketplace and Willis Towers Watson survey data, and with approval from SEBC, project past claims into the future
- Offsets for prescription drug rebates and Medicare EGWP income reduce claims cost
- Health care administrative and legislative fees, including applicable ACA fees, are added to projected claims experience
- Blended health care rate: projected claims experience with health care administrative fees divided by headcount (*per person* cost)
- Blended health care rate allocated based on *actuarial value* of plan options

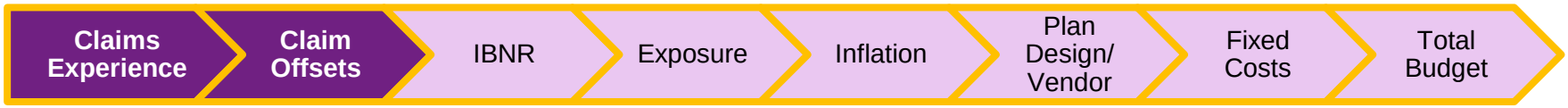
step 3

Aggregate Budget Development

- State of Delaware's July 1st fiscal year budget is based on the developed budget rates calculated in Steps 1-2, leveraging prior year claims experience and current enrollment patterns to project future cost
  - Timing requires that the claims data used to project the upcoming plan year is nearly two years old (e.g., CY17 data primarily used to set FY19 budget rates)
  - Preliminary FY19 budget developed in late 2017 based on claims experience through Q1 FY18
  - Budget projection to be revised with data through Q2 FY18 once available; prior to SEBC approval of final budget in April/May timeframe, review claims experience through Q3 FY18 and update if experience deviates from current projection

Health care budget development

Assumption and pricing analysis details



- **Claims experience** provided by vendors (Highmark, Aetna, and ESI) reflected paid claims and enrollment for the most recent available 24 months, or two experience periods, from October 2015 through September 2017
  - Period 1 (10/1/2015 – 9/30/2016) weighted 35%
  - Period 2 (10/1/2016 – 9/30/2017) weighted 65%
  - WTW recommends using 1-2 years of claims experience for large employer groups
  - Aetna is reporting that inpatient and outpatient utilization levels decreased in Q1 FY18 for most key metrics compared to Q1 FY17, and anticipate that these metrics will return to expected levels as HMO plan matures with new membership; recommend using 24 months of claims data until HMO claim levels stabilize
- Claims experience was adjusted for **claim offsets** from pharmacy rebates and EGWP funding, including:
  - Commercial Drug Rebates: Prescription drug claims are offset by actual prescription rebate payments received from ESI for the quarter payment was attributable (actual rebates currently updated through June 2017)
  - Medicare EGWP: Medicare costs offset by actual and projected[1] EGWP income; includes income from Direct Subsidy, Coverage Gap Discount, Reinsurance/LICS, and applicable Medicare drug rebates (actual rebates currently updated through June 2017)
  - Claims experience was also adjusted based on revised ESI contract terms effective 7/1/2016[2]

[1]Retiree Medicare plan runs on a calendar year basis, and a portion of CY2016 EGWP income is based on future projections
[2]Additional ESI contract savings projections independently verified by WTW

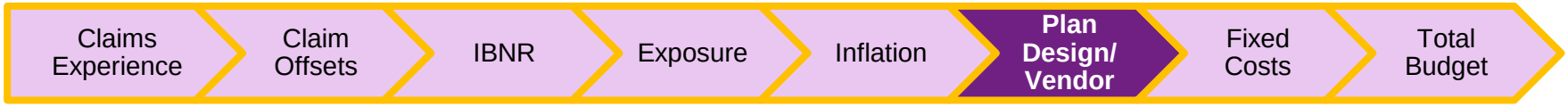
Health care budget development

Assumption and pricing analysis details

- **Incurred But Not Reported (IBNR)** adjustments convert paid claims to an incurred basis based on the lag between when a claim is incurred and when it is paid. Budget reflects average lag factors as of 10/31/2016
- **Exposure** adjustments reflect GHIP's FY18 plan elections following termination of Highmark HMO and CDH plans (no material shifts in age distribution/demographic mix for overall GHIP); adjusted claims experience for each period converted into a *per adult* equivalent claims cost
  - Period 1 Enrollment (10/15 – 9/16): 68,212 total contracts (+1.5% from prior period)
    - Active and pre-65 retiree: 43,814
    - Medicare: 24,398
  - Period 2 Enrollment (10/16 – 9/17): 69,388 total contracts (+1.7% from prior period)
    - Active and pre-65 retiree: 44,082
    - Medicare: 25,306
- **Inflation and trend** adjustments increased the claims costs to reflect expected year-over-year increases to the cost of services; trend assumption set based on review of national survey data and GHIP-specific experience
  - The following factors were used to project GHIP claims to FY19:
    - Active and non-Medicare retirees: 6.5% medical trend, 10% prescription drug trend
    - Medicare retirees: 3% medical trend, 10% prescription drug trend

Health care budget development

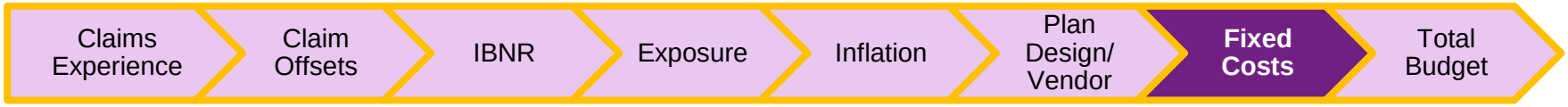
Assumption and pricing analysis details



- **Plan Design** adjustments applied to the claims costs to reflect any plan design changes or movement across plans, and were based on the relative difference in *actuarial value* of the plans
  - Underlying claims experience reflects all plan design changes made to date
  - No further plan design changes assumed for FY19
- **Vendor adjustments** reflect results from medical TPA RFP and other vendor initiatives adopted for FY18
  - The following vendor savings adjustments were used to project GHIP claims to FY19:
    - 1.4% savings applied to Highmark plans (excluding Medicfill) due to implementation of CCMU program effective 7/1/2017
    - 2% savings applied to Aetna HMO claims due to implementation of Aetna AIM effective 7/1/2017
  - No further program changes assumed for FY19

Health care budget development

Assumption and pricing analysis details



- **Self-insured fixed costs** were added to the adjusted claims cost to develop the total budget; this includes the following administrative service fees and expenses:

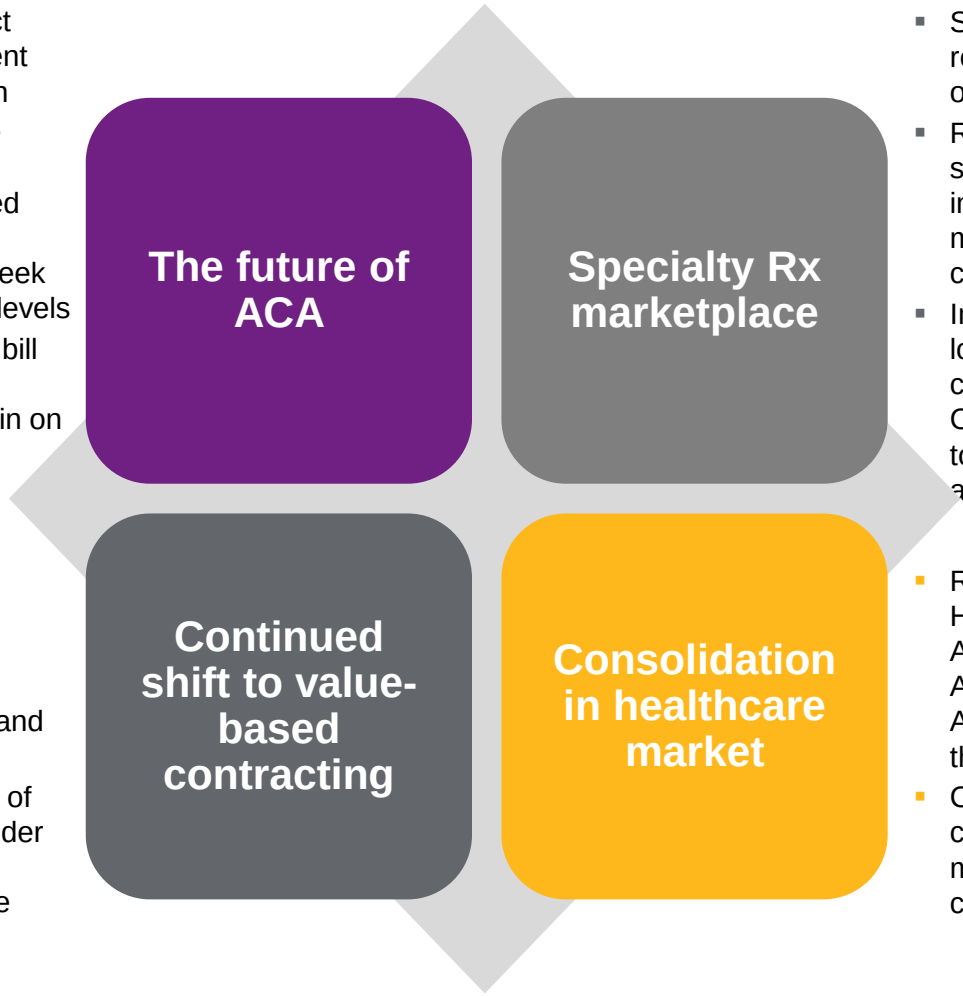
Fee	Payable
Active/Pre-65 Retiree Medical ASO Fee[1]	Aetna & Highmark
Commercial Pharmacy Drug ASO Fee	ESI
Medicare Retiree Medical ASO Fee[1]	Highmark
EGWP Pharmacy Drug ASO Fee	ESI
OMB Office Expenses[2]	OMB Expenses
ACA Fees	Federal Government/HHS

[1] Medical ASO fees reflect the results of the FY18 medical TPA RFP; Aetna HMO fees reflect AIM model including Care Link fees
[2] OMB Office Expenses includes the cost of HMS-Health Advocate Inc. EAP, Truven Analytics, Ceridian/Conexis, Willis Towers Watson Consulting, Vanguard Direct (ACA reporting), OMB salaries, wages, and other employer costs

Health care cost trend overview

External environment considerations

- Although Affordable Care Act (ACA) repeal and replacement efforts were not successful in 2017, future of ACA remains uncertain
- Changes may drive increased health care cost trend as providers and health plans seek to maintain current revenue levels
- Senate approved tax reform bill would eliminate individual mandate, putting further strain on health care marketplace



- Specialty utilization continues to represent a greater share of overall market drug spend
- Release of new high-cost specialty drugs continue to improve patient outcomes but may represent extended ongoing cost for plans
- In recent years, some longstanding specialty drugs coming off patent (e.g., Copaxone) will provide relief to total drug spend as generic alternatives become available

- Shift in provider reimbursements from discounted fee-for-service to value-based is expected to influence healthy outcomes and health care cost
- Ultimate impact on total cost of care will vary based on provider results; long-term impact to GHIP trend may be favorable

- Recent merger activity (CVS Health proposed acquisition of Aetna, failed mergers between Aetna/Humana and Anthem/Cigna) continue to alter the competitive landscape
- Continued pressure on healthcare costs as insurers seek to increase market share and reduce competition

Marketplace trend data – survey sources

- WTW 2017 Best Practices in Health Care Survey
- 2018 Aon Global Medical Trend Rates Report
- Mercer's National Survey of Employer-Sponsored Health Plans 2017
- PWC Health Research Institute – Behind the Numbers 2018
- 2018 Segal Health Plan Cost Trend Survey
- Wells Fargo Annual Insurance Carrier Survey: Healthcare claim trend projections for 2018
- Aetna projected 2018 national book of business trend (provided 8/8/17)
- Highmark projected 2018 national book of business trend (provided 8/25/17)
- Express Scripts 2016 Drug Trend Report

[1] Industry-specific data available for active populations only